

**REPORT OF THE AUDIT OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

March 17, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CAMPBELL COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

March 17, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Campbell County Sheriff as of March 17, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$35,942,606 for the districts for 2005 taxes, retaining commissions of \$1,150,447 to operate the Sheriff's office. The Sheriff distributed taxes of \$34,770,986 to the districts for 2005 Taxes. No taxes are due to the districts from the Sheriff and refunds of \$7 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Receipts On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the Campbell County Sheriff's Settlement - 2005 Taxes as of March 17, 2006. This tax settlement is the responsibility of the Campbell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Campbell County Sheriff's taxes charged, credited, and paid as of March 17, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Receipts On A Daily Basis

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 12, 2006

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

March 17, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,477,492	\$ 7,838,285	\$ 14,506,334	\$ 5,481,790
Tangible Personal Property	338,224	493,271	907,465	905,726
Intangible Personal Property				782,513
Increases Through Exonerations	2,299	4,591	9,654	3,302
Franchise Taxes	303,118	394,481	836,002	
Penalties	16,466	26,890	50,544	20,847
Adjusted to Sheriff's Receipt	<u>1,573</u>	<u>1,677</u>	<u>3</u>	<u>1,963</u>
Gross Chargeable to Sheriff	<u>5,139,172</u>	<u>8,759,195</u>	<u>16,310,002</u>	<u>7,196,141</u>
<u>Credits</u>				
Exonerations	16,538	35,561	71,425	279,581
Discounts	82,302	142,310	263,003	118,927
Delinquents:				
Real Estate	61,078	99,252	196,996	74,778
Tangible Personal Property	2,703	2,802	1,101	5,456
Intangible Personal Property				3,637
Uncollected Franchise Taxes	<u>776</u>	<u>895</u>	<u>2,783</u>	
Total Credits	<u>163,397</u>	<u>280,820</u>	<u>535,308</u>	<u>482,379</u>
Taxes Collected	4,975,775	8,478,375	15,774,694	6,713,762
Less: Commissions *	<u>211,758</u>	<u>258,700</u>	<u>394,367</u>	<u>285,622</u>
Taxes Due	4,764,017	8,219,675	15,380,327	6,428,140
Taxes Paid	4,761,406	8,214,522	15,370,440	6,424,618
Refunds (Current and Prior Year)	<u>2,611</u>	<u>5,153</u>	<u>9,887</u>	<u>3,529</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (7)</u>

* See Next Page

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
March 17, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	17,030,802
2.5% on	\$	15,774,694
1% on	\$	3,127,110

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT

March 17, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CAMPBELL COUNTY
NOTES TO FINANCIAL STATEMENT
March 17, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of March 17, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 29, 2005 through March 17, 2006.

Note 4. Interest Income

The Campbell County Sheriff earned \$25,700 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder is to be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Campbell County Sheriff collected \$87,649 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Campbell County Sheriff collected \$3,873 of advertising costs and \$3,305 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$1,889 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department. The Sheriff should also pay over \$15,787 to the Kentucky State Treasurer for unrefundable duplicate payments and unexplained receipts for tax years 1996 through 2001.

COMMENTS AND RECOMMENDATIONS

CAMPBELL COUNTY
JOHN DUNN, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of March 17, 2006

STATE LAWS AND REGULATIONS:

The Sheriff's Office Should Deposit Receipts On A Daily Basis

During our compliance testing of daily receipts, the auditor noted that the tax collections for February 17, 2006 were not deposited until February 21, 2006. Also included in this deposit were deposits for February 15, 2006, February 16, 2006, February 18, 2006, and February 20, 2006. KRS 68.210 requires daily deposits intact into a federally insured banking institution. We recommend that the Sheriff's office comply with this statute by making daily deposits in the future.

Sheriff's Response: No response noted.

INTERNAL CONTROL - MATERIAL WEAKNESS AND REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of limitations of the Sheriff's office, it appears that only compensating controls may mitigate this lack of a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and include, but are not limited to the following:

1. Cash recounted and deposited by the Sheriff.
2. Surprise cash counts by the Sheriff.
3. Periodic reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
4. Reconciliation by the Sheriff of monthly collection reports, the receipts ledger, and disbursements ledger.
5. Requiring dual signatures on checks with one being that of the Sheriff.
6. Examination by the Sheriff of tax distributions prepared by another employee.
7. Delivery by the Sheriff of tax distribution checks and monthly tax reports to the taxing districts.
8. Sheriff receiving signed receipt documenting delivery.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response: No response noted

PRIOR YEAR:

Lacks Adequate Segregation of Duties

Condition remains unchanged and is repeated.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Steve Pendery, Campbell County Judge/Executive
Honorable John Dunn, Campbell County Sheriff
Members of the Campbell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Campbell County Sheriff's Settlement - 2005 Taxes as of March 17, 2006, and have issued our report thereon dated December 12, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's Settlement - 2005 Taxes as of March 17, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Sheriff's Office Should Deposit Receipts On A Daily Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 12, 2006

